

## Message Text

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ACTION SP-02

INFO OCT-01 ISO-00 SS-15 OES-03 EA-06 INR-07 INRE-00 L-02

SSO-00 RSC-01 /037 W

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC NIACT IMMEDIATE 7581

C O N F I D E N T I A L SECTION 1 OF 3 TOKYO 1098

STADIS//////////

E.O. 11652: GDS

TAGS: TGEN XEJA

SUBJ: ENRICHED URANIUM

REF: STATE 017354

SUMMARY: RESPONSE TO REFTEL IS PROVIDED, WITH SUMMARY  
EVALUATION IN PARAGRAPH 8. END SUMMARY.

1. DURING RECENT TOKYO VISIT OF BECHTEL OFFICIALS  
KOMES AND O'DONNELL, EMBOFFS MET WITH THEM, AND ARRANGED  
FOR GROUP MEETING WITH AMB. HODGSON. ON BASIS OF BECHTEL  
PRESENTATION ON BOTH OCCASIONS, IF APPEARED THAT  
IMPORTANT DEVELOPMENTS WERE TAKING PLACE IN UEA  
SITUATION WHICH COULD SIGNIFICANTLY AFFECT JAPANESE  
ATTITUDE TOWARD PROJECT. AS A CONSEQUENCE, JOINT  
ERDA-EMBASSY REVIEW OF JAPANESE REACTION TO BECHTEL  
PRESENTATION WAS ALREADY UNDERWAY ON RECEIPT OF REFTEL.  
TO DATE, DISCUSSIONS HAVE BEEN HELD WITH UTILITY  
INDUSTRY (IMAI OF JAPCO), GOVERNMENT (INOUE -  
ACTING CHAIRMAN, JAEC), AND ENRICHMENT SURVEY COMMITTEE  
(SHIBATA). DISCUSSIONS WITH ERG OFFICIALS NOT FEASIBLE  
TILL WEDNESDAY, BUT EMBASSY BELIEVES THEIR VIEWS ARE  
SUBSTANTIALLY REFLECTED IN DISCUSSIONS HELD SO FAR.

2. SINCE DEPT UNDOUBTEDLY FAMILIAR WITH BECHTEL PRESENTA-  
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TION, WHICH ALSO FORMED BASIS OF THEIR DISCUSSIONS WITH

JAPANESE GROUPS, IT WILL NOT BE REPEATED IN THIS MESSAGE. IN BRIEF, AS WE UNDERSTAND IT, BECHTEL STRESSED IN THEIR PRESENTATION TO JAPANESE 1) INCREASED ACCEPTABILITY OF UEA TO US UTILITIES, AS EVIDENCED BY RECENT LETTER OF INTENT SIGNED BY SOCAL EDISON (WE UNDERSTAND COPY OF NOT PROVIDED JAPANESE). 2) INTEREST OF GOODYEAR IN PARTICIPATION IN UEA, THUS PROVIDING DIFFUSION PLANT OPERATING EXPERIENCE AS WELL AS PRESUMABLY, CAPITAL; AND 3) PERHAPS MOST IMPORTANTLY, RECEPTIVITY ON PART OF USG TO PROVIDING SUPPORT TO PROJECT, ESPECIALLY IN TERMS OF GUARANTEE OF COMPLETION AND OPERABILITY OF PLANT, AND PURCHASE OF PORTION OF PLANTS EARLY OUTPUT.

3. TURNING TO JAPANESE REACTION, IT MAY BE WORTH PUTTING VIEWS OF IMAI IN SOME PERSPECTIVE, SINCE THESE UNDERSTANDABLY TRIGGERED DEPARTMENT'S INQUIRY. ON RETURN TO TOKYO, IMAI (WHO WAS IN US AND DID NOT PARTICIPATE IN TOKYO DISCUSSIONS WITH BECHTEL) INFORMED EMBOFF THAT HE HAD DEVOTED SOME EFFORT TO MAKING JAPANESE VIEWS ON URANIUM ENRICHMENT CLEAR TO INTERESTED USG AGENCIES. IMAI STATED THAT HE DRAWS CLEAR AND SHARP DISTINCTION BETWEEN, ON ONE HAND, OVERALL JAPANESE PRINCIPLE THAT JAPANESE ENRICHMENT TIES SHOULD MAINLY BE WITH US, WITH JAPANESE UTILITY INDUSTRY FOLLOWING US LEAD, AND, ON OTHER HAND, SUPPORT FOR UEA. IMAI STRESSED THAT FIRST PRINCIPLE REMAINS UNCHANGED, BUT THAT HE, AND PRESUMABLY OTHERS WHOSE VIEWS HE OFTEN REFLECTS, SEE NO DIRECT CONNECTION BETWEEN THIS PRINCIPLE AND THEIR ATTITUDE TOWARD UEA. HE COMMENTED WITH SOME SARCASM THAT THIS DISTINCTION NOT ALWAYS UNDERSTOOD OR APPRECIATED IN US. IN RESPONSE TO EMBOFFS OBSERVATION THAT PROSPECTS FOR UEA HAD APPARENTLY BRIGHTENED THROUGH RECENTLY REPORTED DEVELOPMENTS, IMAI STATED THAT REPORTED USG INTEREST IN SUPPORT OF UEA WAS NOT CONVINCING IN VIEW OF NEED, AS PERCEIVED BY IMAI, FOR CONGRESSIONAL APPROVAL OR ENDORSEMENT OF ANY USG/UEA ASSISTANCE ARRANGEMENT. IMAI ALSO EXPRESSED RESERVATIONS AS TO DESIRABILITY, FROM JAPANESE STANDPOINT, OF UEA'S MARKET SEEMINGLY HAVING BECOME A PREDOMINANTLY FOREIGN ONE. THIS CONCERN, EXPRESSED IN SOMEWHAT DIFFERING WAYS

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BY ALL EMBASSY'S CONTACTS, APPARENTLY REFLECTS UNEASINESS THAT, WITH A PREDOMINANTLY FOREIGN MARKET, UEA WILL NOT ENJOY FULL SUPPORT AND COMMITMENT OF US INDUSTRY, THEREBY INVALIDATING FUNDAMENTAL AND CONSISTENT JAPANESE POINT THAT THEY WISH TO FOLLOW US INDUSTRY LEAD.

4. AS DEPARTMENT AWARE FROM PREVIOUS MESSAGES, EMBASSY CONSIDERS IMAI HIGHLY KNOWLEDGEABLE (ALTHOUGH SELF-

CENTERED AND OPINIONATED) INDIVIDUAL, WHOSE ROLE OFTEN GOES SUBSTANTIALLY BEYOND THAT OF OBSERVER TO THAT OF OPINION OR POLICY FORMULATION. IN GENERAL, WE HAVE FOUND IMAI'S OPINIONS AND FORECASTS ACCURATE, AND OFTEN AHEAD OF OTHERS IN NUCLEAR CIRCLES, ALTHOUGH, IN COMPLEX JAPANESE SITUATION, HE IS, OF COURSE, ONLY ONE OF MANY VOICES. AT PRESENT, IMAI SEEMS TO BE STRONGLY BIASED TOWARD CENTRIFUGE PROCESS, WHICH CAN HELP EXPLAIN HIS NEGATIVE ATTITUDE TOWARD UEA.

5. INOUE (ACTING CHAIRMAN, JAEC) STRONGLY REITERATED JAPANESE PREFERENCE FOR MAINTAINING PRINCIPAL ENRICHMENT TIES WITH US, BUT REPEATED IMAI'S CONCERN REGARDING HIGH PROPORTION OF PLANT OUTPUT WHICH WOULD BE DEVOTED TO MEETING FOREIGN REQUIREMENTS. HE ALSO CITED, BUT WENT CONSIDERABLY BEYOND, IMAI'S POINT REGARDING THE NEED FOR CONGRESSIONAL APPROVAL OF ANY USG ASSISTANCE TO UEA. INOUE'S CONCERN WAS THAT ANY "DISCRIMINATION" IN ARRANGEMENT WOULD MAKE IT UNACCEPTABLE TO JAPANESE GOVERNMENT AND INDUSTRY, AND THAT US CONGRESS, IN APPROVING ANY ASSISTANCE TO UEA WOULD INEVITABLY AND UNDERSTANDABLY FAVOR US UTILITIES AND INVESTORS.

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INFO OCT-01 ISO-00 SS-15 OES-03 EA-06 INR-07 INRE-00 L-02

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TO SECSTATE WASHDC NIACT IMMEDIATE 7582

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6. IN ATTEMPT TO ELICIT BETTER UNDERSTANDING OF INOUE'S CONCERNS, EMBOFF STATED THAT, WHILE WE HAD NO DETAILED INFORMATION HERE, WE ASSUMED THAT ANY USG SUPPORT UEA WOULD BE EXTENDED TO PROJECT AS A WHOLE,

NOT TO INDIVIDUAL GROUPS OF CUSTOMERS OR INVESTORS, AND WOULD THEREFORE BENEFIT ALL CUSTOMERS AND INVESTORS ALIKE. UNDER SUCH CIRCUMSTANCES, EMBOFF FAILED TO SEE HOW USG SUPPORT COULD BE A DISADVANTAGE. EMBOFF ALSO NOTED THAT, WITH INCREASING US CONCERN FOR BALANCE OF PAYMENTS, AN EXPORT-ORIENTED PROJECT COULD BE MORE IMPORTANT TO US THAN A DOMESTICALLY ORIENTED ONE, A SITUATION WHICH PREVAILS FREQUENTLY IN JAPAN. INOUE'S RESPONSE WAS THAT EVEN IF JAPANESE UTILITY CUSTOMERS ARE PROTECTED IN THEIR RIGHT TO PROPORTIONATE SHARE OF PLANT OUTPUT, JAPANESE INVESTORS, WHICH WOULD UNDOUBTEDLY INCLUDE GOJ OR GOJ INSTITUTIONS SUCH AS INDUSTRIAL DEVELOPMENT BANK OF JAPAN, WOULD INSIST ON "MORTGAGE" IN RETURN FOR THEIR INVESTMENT, A REQUIREMENT WHICH HE APPARENTLY DEEMS INCONSISTENT WITH CONDITIONS WHICH WOULD BE ATTACHED TO USG SUPPORT. INOUE STRESSED THAT JAPANESE UTILITIES DO NOT HAVE THE FINANCIAL RESOURCES TO PAY THEIR SHARE IN UEA WITHOUT JAPANESE GOVERNMENT SUPPORT, AND THAT, AS GOVERNMENT OFFICIAL WHO WOULD HAVE TO ENDORSE REQUESTS TO FINANCE MINISTRY AND INDUSTRIAL BANK OF JAPAN, HE WAS CERTAIN THAT QUESTION OF "NON-DISCRIMINATION" CONFIDENTIAL

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AND SECURITY FOR INVESTMENT WOULD BE PARAMOUNT. HE CONCLUDED BY SAYING HE STILL HOPES AND BELIEVES US/JAPAN ENRICHMENT COOPERATION WILL BECOME A REALITY, BUT THAT JAPANESE UTILITIES WILL NOT ACCEPT PRESENT UEA OFFER. INOUE BELIEVES THAT FOURTH ENRICHMENT PLANT IS REQUIRED BY 1983, AND ESTIMATES THAT SIX MONTHS WILL BE REQUIRED FOR FURTHER REVIEW OF SITUATION IN JAPAN, BEFORE JAPANESE DECISION ON UEA CAN BE MADE. HE RECOGNIZES THIS IMPOSES A TIGHT TIMETABLE ON THE PROJECT.

7. INFORMATION FORMATION FROM SHIBATA (ESC) GENERALLY PARALLELS THAT FROM IMAI AND INOUE, WITH ADDITION THAT OVERALL DECLINE IN REACTOR CONSTRUCTION IN JAPAN IS GENERATING ADDED DOUBTS AS TO ADVISABILITY OF JAPANESE PARTICIPATION IN UEA (AND PRESUMABLY ANY OTHER) ENRICHMENT VENTURE. SHIBATA ALSO PROVIDED COPIES OF MINUTES AND REPORT OF RECENT ESC/BECHTEL MEETINGS, WHICH BEING POUCHED SEPARATELY. REPORT CONCLUDES THAT "NOW IS NOT YET TIME WHEN FINAL CONCLUSION CAN BE FORMED," BUT FROM LONG-RANGE VIEWPOINT. "JAPAN'S PARTICIPATION IS CONSIDERED APPROPRIATE," SUBJECT TO FOLLOWING CONDITIONS:

- A) SATISFACTORY CONTRACT CONDITIONS, CREATED, FOR EXAMPLE, THROUGH USG ASSISTANCE TO UEA
- B) CONSIDERABLE REQUIREMENTS FROM AMERICAN UTILITIES
- C) NEW PARTNERS FOR BECHTEL, WITH ACCOMPANYING

INVESTMENTS.

8. BASED ON ABOVE NEW INFORMATION AND MANY PREVIOUS DISCUSSIONS, EMBASSY ASSESSMENT ON POINTS IN PARA. (3) OF REFETL IS AS FOLLOWS:

A) DESPITE SOME VIEWS, SUCH AS THOSE OF IMAI, FAVORING CENTRIFUGE PROCESS, AND CONSEQUENT CONCERN THAT PARTICIPATION IN UEA COULD BE TECHNOLOGICAL DEAD-END, EMBASSY BELIEVES BASIS INTEREST REQUIRED FOR JAPANESE PARTICIPATION PROJECT STILL EXISTS, IF PROPER CONDITIONS MET. HOWEVER, THESE CONDITIONS HAVE NOT YET BEEN MET, AND, RECENT SUCCESS, (IF CONFIRMED), OF UEA IN SECURING INTEREST OF OTHER FOREIGN COUNTRIES IN PURCHASE OF ENRICHMENT SERVICES, AND OF USG IN SUPPORT OF PROJECT, HAVE, BERHAPS PARADOXICALLY, COMPLICATED SITUATION, ALTHOUGH NOT IRRETRIEVABLY SO IN CONFIDENTIAL

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OUR VIEW.

B) EMBASSY BELIEVES THAT, BARRING A CLEAR-CUT AND LARGE-SCALE ENDORSEMENT OF UEA BY US UTILITY INDUSTRY, THERE IS ESSENTIALLY NO LIKELIHOOD OF JAPANESE SIGNATURE OF ENRICHMENTS CONTRACTS OR SERIOUS LETTERS OF INTENT WITH UEA. CONDITIONS WHICH WOULD BRING JAPANESE COMMITMENT ABOUT, IN EMBASSY VIEW, ARE

(1) FIRST AND FOREMOST, ENDORSEMENT OF US UTILITIES AS CITED ABOVE, PREFERABLY THROUGH SIGNATURE OF CONTRACTS OR BINDING LETTERS OF INTENT BY A CONVINCING NUMBER OF US UTILITIES.

(2) ELIMINATION OF HELL OR HIGH-WATER CONTRACT PROVISION, AND SATISFACTORY GUARANTEE OF NONDISCRIMINATORY TREATMENT (INCLUDING NONDISCRIMINATORY STATUS FOR JAPANESE DEBT INVESTMENT IN PROJECT) IF IMPROVEMENT OF CONTRACTUAL TERMS IS SECURED THROUGH US SUPPORT OR GUARANTEES.

(3) SOME ASSURANCE THAT JAPANESE PARTICIPATION IN UEA WILL NOT WORK TO THEIR DISADVANTAGE IF CENTRIFUGE PROCESS IS ADOPTED FOR FUTURE PLANT EXPANSION. IN SOME RESPECTS, THIS MAY BE MOST DIFFICULT PROBLEM TO RESOLVE, BUT EMBASSY BELIEVES SERIOUS CONSIDERATION SHOULD BE GIVEN TO POSSIBILITY OF ASSURING GOJ THAT THEY WILL HAVE RIGHT TO ACQUIRE EQUAL SHARE IN ANY FUTURE CENTRIFUGE PROJECT (NOT JUST A UEA ENDEAVOR), IF THEY PARTICIPATE IN UEA.

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INFO OCT-01 ISO-00 SS-15 OES-03 EA-06 INR-07 INRE-00 L-02

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IN ADDITION, EMBASSY BELIEVES THAT, IF USG IN FACT IS SERIOUSLY CONSIDERING SUPPORT OFUEA PROJECT, THIS FACT, AND RELATED CONDITIONS, SHOULD BE MADE KNOWN TO JAPANESE BY USG OFFICIALS, NOT ONLY BY THOSE OF INDUSTRY. (C) WE ARE CONVINCED OF JAPANESE SINCERITY IN THEIR FREQUENT ASSURANCES OF PREFERENCE FOR THE US AS ENRICHMENT SUPPLIER. THIS IS A PREFERENCE, HOWEVER, AND NOT AN ABSOLUTE. WE ALSO BELIEVE THAT IMAI'S DISTINCTION BETWEEN JAPANESE PREFERENCE FOR U.S. AS ENRICHMENT SUPPLIER AND ACCEPTABILITY OF UEA AS AN INSTRUMENT OF U.S. SUPPLY POLICY IS A DISTINCTION SHARED BY JAPANESE NUCLEAR COMMUNITY IN GENERAL, ALTHOUGH NOT YET ACCOMPANIED WITH IMAI'S APPARENT BIAS AGAINST UEA. COROLLARY IS THAT GO-AHEAD OF UEA PROJECT ON TERMS UNACCEPTABLE TO JAPANESE IS LIKELY TO CAUSE JAPANESE TO TURN ELSEWHERE, SINCE JAPANESE PREFERENCE FOR US AS SUPPLIER IS NOT STRONG ENOUGH TO OVERCOME ANY AND ALL DISADVANTAGES, REAL OR PERCEIVED. JAPANESE PREFERENCE FOR US AS SUPPLIER IS UNDOUBTEDLY BASED ON MANY FACTORS, INCLUDING US TECHNOLOGICAL PREEMINENCE, NONDISCRIMINATORY PRACTICES TO DATE, AND STRENGTH OF OVERALL US-JAPAN RELATIONSHIP. IN THIS BROAD SENSE, BASIC US ENRICHMENT POLICY HAS BEEN SOUND AND IS RESPONSIBLE FOR JAPANESE PREFERENCE. HOWEVER, AS EMBASSY HAS POINTED OUT IN PAST, JAPAN IS GENUINELY CONCERNED BY SOME RECENT TRENDS IN US POLICY AND TECHNOLOGICAL SITUATION. OF FUNDAMENTAL IMPORTANCE, DESPITE SOME RELAXATION OF PRESSURE RESULTING FROM WORLD-WIDE NUCLEAR SLOWDOWN, CONFIDENTIAL

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IS CONTINUITY OF SUPPLY AND OF ABILITY TO CONTRACT FOR

SUPPLY. NONDISCRIMINATION IN SUPPLY ARRANGEMENTS IS ALSO  
INDISPENSABLE TO MAINTENANCE OF US PREDOMINANCE AS SUPPLIER.  
HODGSON

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## Message Attributes

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